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CTC Tourism Intelligence Bulletin – Issue 3: January 2002

As a year-end issue, the January Tourism Intelligence Bulletin will not only look at the latest state of the travel industry, but will also provide a post-September 11th wrap-up and a look ahead to possible trends in 2002.

Year in Review and 2002 Recovery Outlook

Executive Summary

In the immediate aftermath of September 11th, fears of future terrorist attacks were on the forefront of travellers minds. As indicated in our inaugural October issue, travel intentions surveys indicated that the fear of travel represented a bigger deterrent to traveling than the economic fallout of September 11th.

As the war in Afghanistan commenced and no further major terrorist attacks occurred, travellers slowly began returning to the skies in October. Following a sharp decline of 19.3 per cent in international travel to Canada in September, the impact of fragile economies and the tragedies in the United States were still evident as international travel to Canada in October declined by 13.1 per cent over the same period last year. Travel from overseas was mostly effected, declining significantly by 25.1 per cent. More encouraging is travel from the U.S. which declined by only 9.1 per cent, half of September's drop.

As fears of future terrorist attacks subsided, the weakened state of the economy emerged as the most significant deterrent to travel. Yet, travellers remained concerned about safety, travel inconveniences due to heightened security measures and fears of being stranded by bankrupt airlines. Those who did travel remained closer to home-choosing domestic or short-haul destinations. Visiting family and friends over the holidays, or local "get-away" vacations increased in popularity.

Consumer (traveller) response

- Travel continued to increase in November and December with help from the U.S. Thanksgiving and Christmas holiday. It seems that travellers are still willing to travel by air over the holidays to be close to family and friends. However, air passenger volumes are still dramatically off from last year (16-17 per cent according to the Air Transport Association). What will happen in the early part of 2002-when no major holidays occur-remains to be seen.
- Business travel appears headed for a long and slow recovery. Domestic business travel is expected to be down 1.0 per cent and business travel from the U.S. down 3.0 per cent in 2002. The high cost of business travel and reduced air capacity is forcing business to seek alternative modes of travel, and even different ways of doing business.

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Travel supplier response

- Prior to September 11th, the U.S. airline industry was in trouble, as passenger volume growth slowed from 6.3 per cent in the first quarter to 2.6 per cent in the second quarter. Following September 11th, the International Civil Aviation Organization (ICAO) stated that the U.S. attacks sparked a six per cent drop in world-wide air traffic.
- As some consolation, Canada's two largest scheduled airlines are expected to fare better than their U.S. counterparts in the wake of September 11th. Combined passenger volumes for Air Canada and WestJet were down just six per cent in November.
- An updated CTC - PKF study estimates a loss in September and October of over 1.5 million room nights equating to \$264 million. According to Smith Travel Research, the U.S. hotel industry will lose an estimated \$U.S. 3.5 billion (\$Cdn 5.4 billion) in room revenue in 2001.
- Travel suppliers are increasingly joining the on-line market and encouraging on-line sales. On-line travel agents are increasing in popularity and sophistication-forcing the traditional travel agent to reinvent itself to avoid falling into bankruptcy.

Economic fallout (of the September 11, 2001 tragedy)

- The economy was soft prior to September 11th, however, the terrorist attacks further exacerbated the situation. The economy took a steep downturn in September resulting in massive layoffs in the tourism industry and consumer confidence plunging further. While economic and consumer confidence are beginning to show signs of recovery, they are still down from last year.
- Forecasters now believe that world economic recovery will begin to take place in the third and fourth quarters of 2002 as consumer confidence returns and economic stimulus packages begin to kick in. Global recovery will largely depend on the U.S. economy and further political stabilization of the Middle East.

Government response

- The Canadian and U.S. governments reacted to the economic and tourism fallout of September 11th by providing bailouts for the airline industry, signing new airline security legislation and supporting the tourism industry with new marketing campaigns. In November, the Canadian Tourism Commission and the federal government launched a \$20 million advertising campaign to encourage Canadians and Americans in near-border states to visit Canada.
- Beginning in April 2002, Canadian passports will cost an additional \$25 dollars to offset the costs of new passport security measures. In December, the Canadian government passed into law an air passenger information bill that will satisfy a U.S. government requirement for all foreign airlines landing in the U.S. to provide passenger lists and other basic information to federal authorities by January 18th, 2002.

Opportunities

- The latest CTC's Business Outlook findings suggest there are some emerging opportunities for the improvement of the Canadian tourism industry this coming spring based on advanced booking data and associated market intelligence. Specifically, the CTC's Business Outlook reports that overall domestic bookings for spring 2002 are up 3-4 per cent over last spring. Domestic group travel is expected to increase one per cent while independent leisure travel is expected to increase five per cent over spring 2001.
- Recent surveys also support the CTC's Business Outlook findings which indicate that Canadians are still planning to travel this winter and upcoming spring. According to the Canadian Tourism Research Institute's December Travel Intentions Survey, 37 per cent of Canadians intend taking a vacation in the next six months. Of those Canadians planning to take a winter/spring trip, 56 per cent indicated they will take a domestic vacation (up from 51 per cent in the October survey).
- The uncertainty of the times and the reality of "life can change in a day" has become more and more real to many people. Consequently, the number of last-minute travel bookings are on the rise. On-line travel agent, Site 59, reports that 20 per cent of site purchases are being made one day before departure, 55 per cent three days before departure and 80 per cent within seven days. If the travel industry can find ways to capitalize on this new phenomenon it may be able to capture a growing niche market.

- Consumer surveys suggest that on-line travel purchasers may be more risk adverse and more apt to travel, even with today's travel climate. While overall air travel continued to be down in November and was projected to be down considerably over Christmas, the same per cent of travellers who purchased on-line indicated they would travel over the 2001 Christmas holidays compared with 2000. Most (83%) indicated that plans to travel have not changed as a result of the September 11th attacks.

Overview

Most would agree that life has changed since September 11th, especially in the tourism industry. The images of airplanes being used as human missiles and grounded airplanes lined up on airport tarmacs may have affected the psyche of world travelers more than any other event in history. The unprecedented attacks of terrorism on U.S. soil caused the world to literally stand still in disbelief and horror. Travellers immediately began canceling flights and postponing scheduled vacations, and then watched and wondered what was going to happen next.

As the immediate shock began wearing off, and no further terrorist attacks occurred, people slowly began returning to the skies. However, as our last two Intelligence Bulletins reported, passenger numbers were off dramatically in September and October compared with last year. November looked brighter with American Thanksgiving weekend conveniently placed around a time when people desperately felt the need to be around friends and family.

Yet, with a weaker world economy, and heightened security measures in the back of everyone's mind, a different kind of traveler emerged out of the dark cloud of September 11th. People began desiring short-haul, "safe" destinations to seek refuge from the doom and gloom of world events and have sought out low-cost regional carriers or ground transportation to get them there. This has further exacerbated the plight of the troubled airline industry.

As we wrap up this year, and look ahead to 2002, we realize that we are operating in a new traveling environment, with a new kind of traveler. This December Intelligence will report on new trends in leisure and business travel and how airlines and hotels and travel agents are trying to adjust to new travel realities.

Leisure Travelers: Slowly Returning

The airline industry can be thankful to three things since September 11th - no further terrorist attacks, Thanksgiving and Christmas. There is little doubt that a slow return to "normal" and the year's two biggest traveling holidays have provided some relief for the airline industry. While numbers are still down considerably from last year, the desire to connect with those we love most, especially over the holidays, has somewhat helped the airlines as 2001 comes to a close.

Latest figures by the U.S. Air Transport Association (ATA) suggest the number of passengers on U.S. airlines was still down 19.5 per cent in November, better than the 23 per cent decline in October. This may suggest that not only were immediate shocks beginning to wear off, but also that many people were still willing to "risk" traveling by air in order to be near family and friends over the Thanksgiving holiday. Although the ATA still expected a 15 to 20 per cent decline over the Thanksgiving period, airports were still crowded with holiday travelers - mostly due to the high number of late bookings.

For Christmas travel this year, the American Automobile Association (AAA) projected a 20 per cent drop in people making holiday trips - slightly better than the 27 per cent projection for Thanksgiving. The Air Transport Association (ATA) expected a 16-17 per cent drop in U.S. airline traffic for the three weeks surrounding the winter holidays. Yet, several major U.S. carriers reported 90 per cent capacity over the Christmas holidays - better than the 85 per cent forecasted by the Air Transport Association.

The Travel Industry Association of America (TIA) expects domestic travel volume to be off 3.5 per cent at the close of 2001, with travel in the later part of 2001 and beginning of 2002 off 8.4 per cent. The more encouraging news is, as indicated by the TIA's latest Travel Confidence Survey, 62 per cent of respondents are now planning to take at least one leisure trip in the next six months - up from 58 per cent in the first two post-September 11th surveys.

According to the latest results (Wave 6 & 7) of the USA Recovery Monitor by DK Shifflet, overall expected travel by Americans remains soft, however the leisure segment is showing gradual signs of improvement for 2002. Half of American leisure travelers expect to take the same number of trips over the next six months compared to the same period last year - down from Wave 1 and 2 (62%), while 30 per

cent expect to take fewer trips compared to only 10 per cent in Wave 1 and 2. Thirty-six per cent would consider taking one or more leisure trips to Canada in the next six months, up from 33 per cent in Wave 1 and 2. Over half (56%) of Americans gave Canada the highest safety rating of all the destinations tested compared to only 38 per cent for the U.S. overall.

In the new year, the hope is that leisure and business travel will return to normal volumes. The latest Travel Industry Association of America (TIA) Traveler Sentiment Index improved slightly in the fourth quarter of 2001 to 101.1, up from 97.1 in the third quarter. The World Tourism Organization (WTO) also expects a return of consumer confidence in the tourism industry for the latter part of 2002, coinciding with an expected upward turn in the economy.

The latest international travel figures released by Statistics Canada for October confirms the impact of fragile economies and the U.S. September events on the Canadian tourism industry. Following a steep decline of 19.3 per cent in international travel in September, international travel to Canada declined by 13.1 per cent over the same period last year. Travel from overseas was mostly affected, declining significantly by 25.1 per cent. More encouraging is travel from the U.S., which declined by 9.1 per cent, half of September's drop.

The latest travel intentions survey of 2,000 Canadian adults conducted by the Canadian Tourism Research Institute, indicates that 13.4 per cent of Canadians who were planning to travel this winter (November 2001 to April 2002) have now decided not to travel due to the terrorist events in the U.S. The survey identified that only 4.7 per cent of domestic winter trips are in jeopardy. This contrasts with the survey's finding that 21.1 per cent of U.S. trips and 20.8 per cent of other international trips are at risk over the November 2001 to April 2002 period.

The CTRI travel intentions survey also suggests that 7.5 per cent of Canadians who were planning to travel this winter-and, in fact, are still planning to travel even considering the events of September 11th-have changed their destination from one they originally considered. If Canada is the destination for much of this diverted travel, then the balance between fewer Canadians taking domestic trips because of fear may very well be offset by other Canadians now taking a domestic trip because of the perceived safety compared with other international destinations.

BusinessTravelers: New Business Realities

Prior to September 11th, corporate travel was in jeopardy. Corporate America, which accounts for approximately 70 per cent of the airline's revenue, began slashing budgets for business travel resulting in significant losses for the airlines. The September 11th attacks caused a further downturn and forced businesses to take stock of corporate travel policies. All future business trips were put on hold. Increased security meant more delays and hassles at airports, wasting valuable "time and money" for the business traveler.

So, the question on every one's mind is "now what?" Early indications suggest that things do not look good for business travel. What exactly will happen to the lucrative and much needed business traveler? A survey early in November by Equation Research showed 2/3 of companies polled had further reduced travel spending for the fourth quarter of 2001. According to the American Express Business Travel Monitor, the average fare paid by business travelers fell to its lowest level since February 1997. One-fifth of companies said they would spend less on travel in 2002 than they did in 2001. In December, American Express announced 6,500 cuts worldwide, mostly from its corporate travel business section.

Yet, most analysts feel there will be a recovery in business travel due to the importance of human interaction in doing business. Despite the uncertainties in the global economic outlook, companies will not be able to afford sacrificing face to face contact in the long term. This is confirmed by the International Air Transport Association's (IATA) Corporate Travel Survey that indicates just under half of the respondents expect their business travel plans to return to normal within six months and 39 per cent indicated their plans will return to normal within a year.

However, in response to the lagging economy, the high cost of business travel and the new traveling environment, companies are being forced to research new ways to conduct business. Internet video and web-based conferencing are increasingly being looked at as alternatives to air travel. Those companies that still see corporate travel as a necessity are desperately seeking ways to cut costs by asking the business traveler to book in economy class or use low-fare discount airlines. Yet, in the long term, it is expected that more and more business travelers will become frustrated with this corporate travel climate and demand a revision to corporate travel policy.

A longer-term trend in business travel that seems to be inching its way in is an increase in the use of private and corporate jets. With a

reduction in capacity, routes and service on many commercial airlines, (along with concerns about safety and security and frustrations over the high cost of business airfares) many businesses are searching for alternatives to corporate travel on commercial airlines. As a result since September 11th, many charter and private jet companies have reported a 25-30 per cent increase in business. Air Charter Guide, a company that tracks charter trends, reports that three quarters of companies surveyed confirmed this trend. Fractional ownership (giving a company part ownership with the right to use the plane a pre-determined number of hours a year) is also on the rise.

Major airlines have been paying attention to the private-charter trend. United Airlines set up a subsidiary in 2001 called Avolar to market business jets through fractional ownership leases and to operate charter and shuttle services for corporate clients. British Airways has teamed up with Air Partner to form Business Jets, which enables passengers to connect direct from any British Airways flight to a corporate jet at two hours notice. Air Canada launched AC Jetz - a new service designed to fly professional sports teams and corporate clients around the continent.

Although some business travelers are currently experiencing a decrease in business fares and a sea of promotional offers, how "real" these discounts are is questionable. According to American Express, business fares actually increased six per cent over last year. Flexible and restricted business class fares from Western Europe to North America rose 3.5 per cent after the September terrorist attacks, while those from the U.K. jumped to 6 per cent. In Australia, business and full economy airfares increased by 2 -2.5 per cent.

What business travelers will have to pay in 2002 remains to be seen. According to the National Business Travel Association (NBTA), business fares in 2002 will rise only three per cent compared to an average of eight per cent in each of the last five years. However, some analysts expect that business travel fares - the most profitable segment for the airlines - will have to make up for the shortfall from a much reduced leisure market. It seems that the Association of Corporate Travel Executives (ACTE) believes this as well. In December, the ACTE, frustrated with the high cost of business travel, formed an air fare focus group, which will develop a proposed fare-structure to be presented to the airlines on January 1st, 2002.

U.S. Airlines: Readjustments and Survival of the Fittest

There is little doubt that the U.S. airline industry was in trouble prior to September 11th. According to the International Air Transport Association (IATA), international passenger growth slowed from 6.3 per cent in the first quarter to 2.6 in the second. U.S. carriers were expecting a collective loss of about \$U.S. 2 billion (\$Cdn 3.1 billion) for the year. Then came September 11th. The initial terrorist attacks and the unprecedented closure of U.S. airspace for three days alone cost more than \$U.S. 1 billion (\$Cdn 1.55 billion). Then, airlines went into "survival mode" - laying off workers, cutting capacity by approximately 20 per cent and offering heavily discounted fares in troubled travel markets. UBS Warburg expects major U.S. carriers to post a fourth quarter loss of \$U.S. 3.23 billion (\$Cdn 5.0 billion).

Despite the Thanksgiving weekend and the efforts of the government and tourism industry, passenger numbers in the U.S. continue to be off dramatically from last year. While November figures are better than October levels (down 20.7 per cent, compared with a 23 per cent decline in October), international traffic still declined 32.9 and domestic traffic dropped 22 per cent. Capacity on international and domestic flights fell 22.4 per cent and 19.4 per cent, respectively. The IATA estimates that its member airlines will lose \$U.S. 7 billion (\$Cdn 10.6 billion) on international service this year compared with the previous worst loss of \$U.S. 4.8 billion (\$Cdn 7.4 billion) in 1992 following the Gulf War. The International Civil Aviation Organization believes the U.S. attacks sparked a six per cent drop in worldwide air traffic in 2001, the first year-over-year decline since 1991, and an estimated worldwide drop of approximately 60 million passengers in 2001.

US carriers, that were in bad shape before the terrorist attacks, continued to suffer in November. TWA was absorbed by American after declaring bankruptcy and United Airlines is dealing with estimated daily losses of \$U.S. 16.4 million (\$Cdn 25.4 million). Delta Airlines expects to report a \$U.S. 500 million (\$Cdn 775 million) loss for the fourth quarter. Yet, those airlines that were in a strong financial position before the attacks, continue on an upswing. Southwest Airlines was able to get by without grounding a plane or laying off a single worker after September 11th. It experienced a capacity growth of 7 per cent in November. Besides Southwest, Continental was one of a few airlines to post a profit this year and expects Christmas load factors to be comparable to a year ago.

The Los Angeles Times reports that the top three U.S. carriers got the largest share of federal relief in the first two rounds of the U.S. government bailout plan. United, the worst airline hit, received a total of \$U.S. 897.4 million (\$Cdn 1.4 billion). \$U.S. 806.8 million (\$Cdn 1.25 billion) was distributed to American Airlines, while Delta received \$U.S. 730.9 million (\$Cdn 1.13 billion) to offset costs incurred since September 11th.

There is no doubt that airlines will have to re-think their approach to how they do business in 2002. One major airline reflected how many airline companies make the mistake of emphasizing too much on survival while neglecting efforts to improve services. International management consultant agency Booz Allen Hamilton, feels the challenge of the travel industry in 2002 will be to develop a "consistent approach to cost, convenience, quality and process integrity, providing consumers with genuine service improvements" and create a seamless travel industry. Runzheimer International expects big changes in the airline industry in 2002 with a conscious effort to break away from an old model already destined for oblivion.

Canadian Airlines: Industry Overview

Canada's two largest scheduled airlines fared better than their U.S. counterparts since the fallout of September 11th. Combined traffic volumes for Air Canada and WestJet were down just six per cent from November 2000. WestJet announced a 52.5 per cent increase in revenue passenger miles for the month of November and announced a service expansion to Toronto, Montreal, Halifax and London for 2002. WestJet will also add a twice daily non-stop service between Winnipeg and Edmonton beginning in February. Air Canada also announced plans to implement another low cost air carrier in 2002.

Air Canada was given a boost from the \$100 million government bailout package intended to offset losses from September 11th. However, Canadian Transport Minister David Collenette has warned Air Canada that it will re-regulate the airline industry unless Air Canada yields its 80 per cent domestic market share to competitors. In response, Air Canada tabled a proposal to the Transport Minister requesting air sharing with the United States. In the first phases of the proposal, Air Canada recommends that U.S. carriers be able to offer service between points in Canada via their U.S. hubs and Canadian carriers offer service between points in the U.S. via their Canadian hubs.

A potential deterrent for Canadians to travel, especially short-haul domestic, is that beginning April 2002, Canadian air travelers will be required to pay a surcharge of \$12 one way or \$24 round trip for airline tickets in order to recoup the costs of a new aviation authority's \$2.2 billion price tag. The new authority will supervise the sky marshal program, oversee training of baggage and passenger screening personnel, install high tech bomb detectors, reinforce cockpit doors and implement security zones on tarmacs and in work areas. Canada has already begun staffing its flights with air marshals to Washington's Reagan International Airport, as required by U.S. regulations.

Canadian passengers could also be asked to pay a ticket surcharge of 45 cents to \$1 in order to create a National Security Protection Fund. This fund would be drawn upon to refund tickets in cases of future airline bankruptcies, such as the case of Canada 3000. The Association of Canadian Travel Agents (ACTA), ACTA Ontario and the Canadian Association of Tour Operators (CATO) are currently lobbying the federal and provincial governments to create the fund.

Also as of April 2002, new passports will cost an additional \$25 dollars to offset the costs of new passport security. With the new passports, the bearer's photo will be digitally printed on a secure page replacing the current system of using a normal photo on a laminated page. In keeping with today's tighter security measures, the Canadian passport office has also announced it will begin checking background references more rigorously.

In December, the Canadian government passed into law an air passenger information bill, which will be effective January 18, 2002. It will satisfy a U.S. government requirement for all foreign airlines landing in the U.S. to provide passenger lists and other basic information to federal authorities.

Hotel Industry: Wait and See

While the impact on hotels is less dramatic than the airline industry, the hotel industry continues to suffer a blow from a weakened tourism industry and the economic fallout of September 11th. Occupancy was down well below last year's levels during the fall months, normally the busiest time for the hotel industry. According to Smith Travel Research, U.S. room revenues were down 15-17 per cent in November - a slight improvement from the 17.7 per cent decline in October and 23.4 per cent decline in September. The hotel industry was helped somewhat by the Thanksgiving weekend - without it, analysts feel that results could have been very similar to October.

As in previous months, higher-end hotels continued to suffer the worst in November as cost-conscious business and leisure travelers traded down to less expensive rooms in a bid to save money amid the economic downturn. Room revenues at luxury hotels were down 23-25 per cent in November compared with economy hotels, which fared better with a 7 to 9 per cent decline.

An updated CTC - PKF study estimates a loss in September and October of over 1.5 million room nights equating to \$264 million. According to Smith Travel Research, the U.S. hotel industry will lose an estimated \$U.S. 3.5 billion (\$Cdn 5.4 billion) in room revenue in 2001.

Like the airline industry, analysts expect that hotels struggling before September 11th will be those most vulnerable to bankruptcy in 2002. Industry experts expect a wave of hotel foreclosures in January and February. Pricewaterhouse Coopers expects between five and ten per cent of U.S. hotels could run into loan trouble by early next year, with two to four per cent of all properties ultimately headed for foreclosure.

What the future will hold for the hotel industry remains to be seen. While hotels are recovering better than the airlines, they too will need to see the return of the business and international traveler in order to survive. The good news is that some groups are starting to rebook previously canceled trips and government and business travel is beginning to resume. Once again, it will be survival of the fittest.

Travel Agents: On-line vs. the traditional travel agent

Last month, we reported that online travel sites were faring much better than traditional travel agents, with travel sites such as Travelocity, Expedia and Priceline all reporting profits in the third quarter and big Internet travel site launches in Europe dominating the news. By year-end, on-line sites continued to show strong growth where Travelocity shares had nearly doubled, Expedia posted a 62 per cent increase and Priceline shares have climbed 20 per cent. According to a PhocusWright survey in November, 21 million Americans bought their travel on-line, up 75 per cent from 2000. Forrester Research reports on-line travel sales will wind up at a healthy \$U.S. 14.2 billion (\$Cdn 22.0 billion) in 2001.

Traditional travel suppliers are increasingly joining the on-line market and encouraging on-line sales. Choice Hotels, Canada's largest medium size hotel chain, reports that 39 per cent of bookings were made on line this past year. Canada's low-cost carrier WestJet now offers five dollars off all travel booked on-line. Air Canada encourages on-line bookings by charging a \$15 surcharge for issuing paper tickets. Northwest Airlines has recently developed its own last minute online "CyberSaver" packages, which offer customers a combination of air, hotel and car rental packages that can be booked anywhere from 14 days to three hours in advance.

American Express expects companies will continue to book travel using corporate on-line booking tools rather than with an agent over the phone in order to cut costs. In December, Travelsavers International announced a new on-line booking product, called Envoy, for corporate accounts. Frequent fliers can also now go on-line at most major airlines to redeem frequent flier award travel, enhancing the move towards more on-line corporate booking.

On-line travel services are becoming more and more advanced and beginning to provide services once reserved for the traditional travel agent. In December, Travelocity launched its new suite of Trip Expert tools to help members plan their next trip. Trip Expert allows members to tell Travelocity about their travel plans and what they are looking for in a vacation - arts, shopping, history, urban locations etc. and Travelocity experts will then recommend the best destination. Other features include Someplace Similar which provides members with a listing of new destinations that are comparable to one of their favorite places and Destination Check, which tells members if their selected destination is the best choice based on what they're looking for in a vacation.

America On-line's AOL Travel also announced a December launch of their "Rediscover America" and "Quick Getaways" program. Beginning this holiday season, AOL is teaming up with its travel partners and other leading airline, hotel and tourism companies to offer AOL members exclusive opportunities to win trips and discounts on airfares. In Canada, Expedia.ca has launched a new host of services in order to complete everything from researching, planning and booking travel.

Travel cancellations immediately after the September 11th attacks, combined with the booking on-line trend, have dealt a devastating blow to the traditional travel agent sector. In the U.S. it is expected that by the end of December one in five of the 37,000 travel agencies will close. In Canada, travel agencies are projecting business levels will be down 20-30 per cent in the last quarter of 2001. The American Society of Travel Agents (ASTA) estimates that agents' revenue will decline to \$U.S. 9.9 billion (\$Cdn 15.3 billion) in 2001, down from \$U.S. 13.4 billion (\$Cdn 20.8 billion) in 2000. In 2002, ASTA reports this may further drop to just \$U.S. 5 billion (\$Cdn 7.8 billion),

with potential job losses of over 100,000. Thomas Cook has cut 2,600 jobs across Europe and will close a number of travel agencies after a 12 per cent drop in winter bookings.

To help curb closures, the U.S. Small Business Administration has set up an Economic Injury Disaster Loan program to help travel related businesses, including travel agencies and tour operators. In Canada, Ontario travel agents, teetering on the brink of bankruptcy after the Canada 3000 collapse, now have access to a \$23 million compensation fund to repay customers booked on Canada 3000 flights. In providing travel agents access to this fund, the Ontario government is hoping to save between 200 to 300 travel agencies in Ontario and spare approximately 1,000 jobs.

In response to the decline in demand for the traditional travel agent, the Association of Canadian Travel Agents (ACTA), in conjunction with the American Society of Travel Agents, launched a November newspaper ad campaign. This campaign, offering such ads as "10 reasons why smart consumers use a travel agent" and "Without a travel agent, you're on your own", is hoping to remind the travel consumer of the personal touch and "security" travel agents provide. They, unlike the on-line travel agent, rearranged flights and calmed the nerves of stranded passengers at airports after the September 11th attacks. They, unlike the on-line travel agent, were able to offer stranded Canada 3000 passengers refunds on tickets and arrange for them to get back home.

These PR tactics may have some merit. According to a recent American Express Canadian Travel Attitude Survey, more than 80 per cent of those polled said that today's uncertain travel climate is reinforcing the value and benefits of using a travel agency.

However, with a downturn in the economy, cost-cutting measures in corporate travel and leisure travelers now preferring last minute, cost-efficient, close to home travel, it is likely that travel agents have their work cut out for them in 2002. Those travel agents that will survive are those with diversified products, that can act as an expert travel consultant and also convince customers of their inherent value.

International Response -Europe

The Association of European Airlines (AEA) reported that international air travel volumes were down 16 per cent in November compared with an 18 per cent drop in October. North Atlantic traffic fell 28 per cent in the week ending December 2nd, compared with a 29 per cent decline the week before.

Tourism industry executives are hoping that the January 1st full introduction of the euro will encourage short-trips within Continental Europe. The common currency is expected to boost travel by making it easier for travelers who have had to deal with currency exchanges. The new euro is also expected to attract more travelers from Japan who typically visit approximately six countries in a two-week period.

European Union transport ministers agreed in December on strict new measures to increase security controls. Steps agreed upon include compulsory baggage screening for every piece of baggage loaded onto an aircraft in the 15 EU member states. It is hoped that the new legislation will be introduced before the end of 2002. Other measures include the introduction of security restricted areas in all airports, background security checks on all airport and airline staff and routine X-ray screening of air crew.

The European Travel Commission (ETC) has launched a new website to provide the tourism industry with free, up-to-date information on the rapidly developing use of the Internet in 54 countries. "The New Media Monitor" monitors over 80 sources of statistics each month in order to track how Internet use is growing in each country and the extent it is being used for on-line travel planning and booking.

U.K

U.K. travel numbers are still down, but the winter holiday period provided hope. BAA plc, Britain's main airport operator, announced passenger volumes at its seven U.K. airports fell 10.6 per cent in November over last year - a slight improvement on the 12 per cent drop in October. North Atlantic passenger traffic was down 26.1 per cent and other long-haul traffic was down 12.7 per cent. However, in December, the Association of British Travel Agents (ABTA) announced that nearly one million people were expected to fly overseas during the Christmas holiday, matching last year's record. Thanks to strong holiday bookings, U.K. tour operator First Choice, Britain's fourth largest tour operator, reports that winter bookings were down only 3 per cent from last year.

The U.K. government announced a December compensation package of £40m (\$Cdn 89.2m) to offset losses suffered from the four-day closure of U.S. airspace following the September 11th attacks. The compensation package will largely be divided between transatlantic carriers such as British Airways and Virgin Atlantic. The British Tourist Authority (BTA) is investing £5m (\$Cdn 11.2m) in an international marketing campaign this winter to help the tourism industry get back on its feet. The campaign will focus on four core strengths - countryside, cities, heritage and sport. State-run museums in Britain are also offering free admission this holiday season.

While the Canadian government seems in favor of passing on increased security costs to the traveler, the U.K government has opposed an application of the Association of British Travel Agents (ABTA) and the Federation of Tour Operators (FTO) to apply extra charges to holidays bookings. The charges were intended to cover the increased costs of insurance and security following September 11th. The Department of Trade and Industry rejected the travel agents' proposal saying the threat of surcharges would make it more difficult for families to try and budget for their holiday spending and would discourage bookings.

Shares in British Airways fell sharply in December after a report that the airline is planning to make 10,000 more job cuts in 2002. British Airways is considering abandoning its short-haul routes and focussing as an intercontinental carrier, leaving short-haul routes to the increasingly popular low-cost airlines. In December, Go, Britain's low-cost carrier, announced plans to open its third U.K. base after a report of increased interim profits and the success of its second base opening. Go reports a 63 per cent hike in passenger numbers in November.

Forrester Research reports that more than half (51%) of U.K. Internet users research leisure and travel information on-line. Of those, 43 per cent have booked leisure travel on-line. Currently, 15.4 million U.K. adults are using the Internet from home, up from 10.3 million a year ago. According to National Statistics, 35 per cent of Britains used the Internet to make purchases, the most popular purchase being flights and hotel bookings (35%). The U.K and Germany currently dominate travel on-line with over 60 per cent of all European Internet bookings.

France

Air France reported a 7.2 per cent drop in passengers during November. Overall, capacity on Air France's long-haul network has fallen seven per cent since last winter, primarily due to the drop in demand for North America. North American routes experienced a 25 per cent cut in capacity. Service to Canada however was identical to last winter. Capacity increased by 42 per cent to Africa and 9 per cent to the Caribbean. Capacity has also been expanded on flights to Spain and Germany. The Christmas holidays were expected to generate an increase in bookings to Scandinavia, as well as a number of last minute sales.

In contrast, Air France's Paris-Europe network declined by 3.5 per cent and capacity on the domestic network is down by almost six per cent from last year. Delta Airlines and French rail operator SNCF have formed a code share deal on trains from Charles de Gaulle Airport to eight destinations in France. Passengers will be able to fly to Paris and catch a high-speed train to any eight cities included in the agreement with just one ticket.

In attempts to woo the much sought after Asian market, Air France is developing a new cabin service training system designed to better understand Asian flyers and compete with Asian airlines. The new cultural sensitivity program will include language skills, customs and history.

The CTC's foreign office report that French tour operators are beginning to cut back their staff in response to declining demand. The CETO (Association of French Tour Operators) reports a decline of 35 to 40 per cent in member business since September. Syndicat national des agences de voyage, Air France, SNCF (train), SNCM (ferry) and the French Tourism department put together a national TV campaign in December highlighting the services and advice provided by retail travel agencies.

Germany

German travelers continue to be wary of traveling by plane in the midst of unstable world events. According to the CTC's foreign office, 25 per cent of Germans do not intend to travel in 2002 because of the uncertain international situation, while 49 per cent still fear air travel. Lufthansa announced that passenger numbers fell 15.6 per cent in November, compared to the 13.3 per cent in October.

Travel to Canada remains hopeful, but still uncertain. 700 influential German travel agents visited British Columbia from November 28th to December 10th as part of Germany's DERTOUR Travel Academy, one of Europe's most influential tourism-training programs, to promote B.C. However, at the same time, Lufthansa announced plans to reduce capacity to Vancouver.

In the wake of an agreement between Lufthansa and the public service and pilots union, Lufthansa will be avoiding the previously announced layoffs up to year-end 2002. Together, with an already announced recruitment freeze, workers agreed to use up any remaining holiday entitlement and overtime, reduced flying hours for flight crews, part-time offers and unpaid special leave.

In anticipation of better times, Lufthansa has decided to reverse a decision to postpone an order of 15 Airbus A380 super-jumbo jets. The decision to postpone the order came immediately after the September 11th attacks. The order is scheduled for delivery in the third quarter of 2007.

Italy

Alitalia and its unions are in a stalemate over the airline's plan to layoff 3,400 workers to cope with the slump in air travel and is currently offering cheaper than usual flights. Alitalia volumes declined 31.5 per cent in October.

The Italian government is unlikely to include assistance for the country's struggling air transport sector in the 2002 budget currently being discussed in parliament. Instead, federal aid is expected to be in the form of a decrease in taxes on air tickets and a reduction in airport fees. However, the Economy Ministry deposited ITL500 billion (\$Cdn 358 million) into Alitalia's bank account as part of a future capital increase. This was the second installment authorized by the European Commission in July 2001.

The CTC's foreign office reports tour operators forced their staff to take holidays or work part-time and launched special bargains for trips during Christmas time. Bookings are mainly last minute. It is estimated that Christmas holidays will be 60 per cent less than last year. Egypt and the Middle East are estimated to lose 90 per cent of traffic, while the USA and London expect an 80 per cent and 75 per cent loss in Christmas bookings, respectively. To encourage bookings in 2002, ENIT, Italy's tourism board, launched an advertising campaign in Europe and the United States in November entitled "In Italy, There's More".

Netherlands

KLM experienced a 12 per cent decline in overall traffic in October, while November fared slightly better with a 10 per cent drop in passenger traffic, compared to last year. KLM also cut capacity by 15 per cent. The largest declines for both visitor volume and capacity were on North Atlantic routes, which dropped 35 per cent and 31 per cent respectively. KLM has increased fares to North America and the Middle East by 5 per cent to cover higher security and insurance costs.

Netherlands' transport minister announced in December that KLM is set to receive a 26.9 m euros (\$Cdn 37.3 m) compensation package for losses incurred from the U.S. terrorist attacks. KLM's estimated losses directly caused by the U.S. airspace closure after the attacks amounted to approximately 52 m euros (\$Cdn 72.2 m).

KLM Royal Dutch Airlines owned low cost carrier, Buzz is expected to begin flying to nine new French destinations beginning in summer 2002.

International Response -Asia

Japan

Japan Airlines is forecasting a 40 billion yen (\$Cdn 510 million) loss - the worst loss since 1996/1997. All Nippon Airways forecasted a loss of 11 billion yen (\$Cdn 140 million) for 2001 and Japan Air System cut its full year net profit forecast from 700 million yen (\$Cdn 8.9 million) to 3 billion yen (\$Cdn 38.3 million). Some analysts are predicting another year of losses in 2002/2003, with the airlines admitting the situation still remains too unclear to predict when air traffic will begin to pick up.

The Japan Association of Travel Agents (JATA) forecasts the total number of overseas travelers from Japan will be down eight per cent in 2001. In response to the decline in international travel, All Nippon Airways is shifting the focus of its international operations to Asian

routes. The airline plans to raise the number of flights between Tokyo Narita Airport and other Asian countries to about 60 per cent of total international flights from just above 30 per cent. In its winter flight schedules, JAL also suspended flights from Osaka to Paris and from Nagoya to London and cut the number of flights to Honolulu by one-third. However, it increased the frequency of flights to China and South Korea.

Tabini, the web travel site backed by Japan Airlines and All Nippon Airways, in collaboration with Northwest Airlines, United Airlines and Travelocity.com, is scheduled to be launched in early 2002. The new site will allow travelers to book international flights, hotels, car rentals and travel packages. Tabini will also have a cross-shareholding arrangement with Zuji, a similar web site targeting the rest of Asia.

Korea

Korean Air is planning to expand on its services to Washington, Auckland, Toronto, Sydney and Paris from one to three flights per week. Korean Air's load capacity improved to 69 per cent in November thanks to increases in the number of passengers heading to vacation spots in Southeast Asia. KAL and Asiana Airlines expected passenger increases after December 15th due to Christmas travel.

With the 2002 World Cup and the introduction of the five-day work week, the Korean Tourism Research Institute forecasts Korea's tourism industry will grow by 8.6 per cent in 2002. The hotel and the leisure industry are also expected to grow by 9.5 and 8.3 per cent, respectively.

Hong Kong

The economic downturn and the jitters inspired by the September 11th terrorist attacks continued to take their toll on air travel in and out of Hong Kong in November. The Hong Kong Airport Authority announced total passenger figures fell 9.3 per cent - better than the 12 per cent drop in October, but still down from last year.

Cathay Pacific cut capacity by 25 per cent on its transpacific routes, with routes to North America and Japan being hit worst. Cathay Pacific, which has already reduced services overall by eight per cent, plans to ground four more planes next year. Cathay has announced a net loss on its operations for the second half of the year, but is still expected to make a profit for 2001.

Cathay Pacific is extending its on-line purchase bonus to March 31, 2002. Originally set to close December 31st, 10,000 Advantage bonus miles are available on bookings from its U.S. destinations to Asia through Cathay's website. Cathay Pacific also announced an extension of its Canadian Fly Higher promotion (allowing Canadian roundtrip travelers the opportunity to upgrade to first class). Originally scheduled to close on December 15th, it is now extended to June 30, 2002. United Airlines has announced new round-trip special first and business class fares to any 220 U.S. cities. Savings represent a 50 per cent discount on normal seasonal rates.

Hong Kong's Accor Group has launched a new website devoted solely to Asia bookings. The site offers access to more than 90 hotels in Asia, with links to Accor's network of 3,600 hotels worldwide. Web-users also access preferential rates and special deals found only on the site.

Taiwan

The CTC's foreign office reports that the travel market in Taiwan rebounded in December as the continued growth of the stock market helped increase disposable income. China is still the most popular destination to the Taiwanese for both business and leisure travel.

Short-haul travel continues to sell better than long-haul, however FIT travel between North America and Taiwan was expected to increase over the Christmas holidays. According to China Airlines, Vancouver-Taipei flights were full between Dec 18-31 and overbooked between January 1-15. China Airlines is forecast to increase passenger volumes and revenue in December 2001 and January 2002 over last year.

In an attempt to boost air travel, the Taiwan transport minister submitted a proposal to cabinet to have jet fuel prices cut in half. The proposal followed a request by local airlines. China Airlines, Taiwan's largest carrier, experienced a fall in sales to T\$70.6 billion (Cdn 3.2 billion) in the third quarter, down from a previous estimate of T\$79.1 billion (\$Cdn 3.6 billion). Eva Airways slashed its 2001 earnings forecast for the second time this year to a net loss of T\$3.2 billion (\$Cdn 146.8 million) - its first loss since 1994.

International Response -Pacific

Australia

Australia's Gold Coast reports a strong influx of visitors over the Christmas holidays, as Australians cancel overseas holidays in favor of a holiday closer to home. According to Qantas holidays, Australian Christmas-New year booking levels were about the same as last year, with an increase in domestic travel offsetting a decrease in international reservations.

However, as Australia looks ahead into the New Year, domestic travel could be in trouble resulting from a seat shortage after the collapse of Ansett Airlines. The Australian Tourism Export Council (ATEC) believes that the Ansett collapse has caused more problems for domestic travel than September 11th. The situation is so bleak that the Australian government has recently asked Korean Air to carry passengers domestically between Brisbane and Sydney.

However, in the third quarter of 2002, Qantas Airlines is scheduled to launch a new discount carrier, Australian Airlines. The new airline will begin flying to six Asian cities, as Australia continues its heavy promotion in Asian countries. It will also pick up on domestic flights previously served by Ansett.

In response to the failure of Ansett Airlines and retail travel agent Traveland, the Australian travel insurance industry is now falling in line with the U.S. in excluding compensation in the case of financial failure of an airline, travel agent, tour operator, accommodation provider or car rental agency.

Because of this recent development in insurance, the Australian Travel Compensation Fund, funded by Australian travel agents, is proposing a A\$1 dollar (SCdn .80) levy as an alternative funding source for the already taxed Fund. The financially stretched Travel Compensation Fund is currently paying only 40 per cent on the dollar for claims due to lost travel or accommodation since the collapse of Ansett and Traveland. The CTC's foreign office reports that, since the collapse of Traveland, there is a distrust of the agency system in Australia. Consumers are beginning to bypass retail agents and call the wholesaler directly.

As of January 2002, Sydney Airports Corporation Ltd. will increase its passenger service charge for international airlines by A81 cents (Cdn 65 cents) to A\$20.12 (SCdn 16.10) to help recover the costs of increased security measures. It is expected that the charges will be passed on to the flying public.

New Zealand

Fears of Air New Zealand not having the financial strength to remain aloft on its own even after a government backed NZ\$885 million (SCdn 576 million) rescue package is implemented caused shareholders to vote in favor of the government taking control of the troubled airline. The government is set to take an 82 per cent stake in the airline to save it from bankruptcy. Air New Zealand's five-year plan forecasts a NZ\$63.4 million (SCdn 41.3 million) loss in the 12 months ending June 30, 2002.

Domestic air travelers will pay more for travel next year to finance extra security at airports. As of April 1st 2002, the government will begin charging New Zealand airlines NZ\$2.80 (SCdn 1.82) for each passenger on aircraft with more than 89 seats to pay for security screening. Airlines are likely to pass on the "user-pays" fees to passengers. The New Zealand tax payer has already spent NZ\$3.1 million (SCdn 3.6 million) on security since the attacks. Other increases being passed onto travellers by some airlines include an existing security charge, fuel surcharges and higher insurance charges.

Despite the new charges on domestic travel, New Zealanders seem to still be sticking closer to home during their summer period evidenced by the 15 per cent surge in domestic and short-haul flights over the next two months. Tourism New Zealand is spending NZ\$500,000 (SCdn 325,700) to lure Australians in a bid to make up for the shortfall in international travelers.

In order to revive the slumping number of Japanese visitors, Air New Zealand is slashing its fares from Japan by NZ\$5.5 million (SCdn 3.6 million). Japan is New Zealand's second biggest market after Australia. Fare discounts are in conjunction with Tourism New Zealand's NZ\$2 million (SCdn 1.3 million) dollar marketing initiative to promote the safety and security of New Zealand. 21,000 fewer Japanese visitors were expected in the next four months.

World Economic Outlook

North America

The U.S. entered into its first recession in a decade in 2001 as industrial production fell by 6.8 per cent - the sharpest decline since the 1981-1982 recession. However, most forecasters expect a U.S. recovery by the second half of 2002, as factories boost production and inventory reduction slows. Unemployment, or the fear of unemployment is currently the biggest factor in consumer sentiment. The forecast for U.S. unemployment in 2002 stands at 6.1 per cent, up from 6.0 per cent in November

Share prices have recovered from their post-September 11th losses and the Dow Jones Industrial average broke through the 10,000 barrier in December. The economic outlook for the U.S. remains hopeful with interest rates continuing to be at their lowest levels in 40 years and the anticipation of Congress passing a \$U.S. 100 billion (\$Cdn 155 billion) stimulus package.

The economic impact of September 11th did not hit Canada as hard as the U.S. Canada expects real economic growth of 1.6 per cent for 2002, while economic growth in the U.S. is projected to be 0.7 per cent, according to the latest economic forecast of the Conference Board of Canada.

Europe

The Bank of England is projecting a "bumpy ride" in 2002 with imbalances between the buoyant retail sector and the recession-hit manufacturer sector leading to problems. GDP will be slow in the first half of 2002, with weaker household spending as unemployment edges up, but will pick up in the later part of the year. The latest consensus forecast for 2002 expects economic growth will remain at two per cent.

The German economy declined in the third quarter of 2001 by 0.7 per cent, the worst in the economic union. German business investment and consumer spending remain weak. Bankruptcies are running at nearly 1,000 per week. The latest figures for November revealed that unemployment was at nine per cent, with the December figure reaching 9.4 per cent.

Asia Pacific

Japan's economic woes continue despite an ambitious program by the new government to implement economic reforms. The country's GDP shrank in the third quarter, putting the economy in its third recession in the past eight years. The Japanese government predicted zero growth for 2002 after a one per cent decline in 2001.

January 1st saw Taiwan's entry into the World Trade Organization. It is hoped that entry into the WTO will help Taiwan make economic changes at home. Taiwanese officials predict the island's economy will grow by over two per cent in 2002 after shrinking by approximately two per cent in 2001.

The OECD expects Australia to grow at more than four times the rate of the U.S. and more than three times faster than the average for OECD countries in 2002.

Opportunities

The latest CTC's Business Outlook (BO) findings suggest there are some opportunities for the Canadian tourism industry this coming spring, based on advanced booking data and associated market intelligence. Specifically, the CTC's BO reports that overall domestic bookings for spring 2002 are up 3-4 per cent over last spring. Domestic group travel is expected to increase one per cent while independent leisure travel is expected to increase five per cent over spring 2001. According to the Canadian Tourism Research Institute's December Travel Intentions Survey, 37 per cent of Canadians intend on taking a vacation in the next six months. Of those Canadians planning to take a winter/spring trip, 56 per cent indicated they will take a domestic vacation (up from 51 per cent in the October survey).

Since the world has become more and more uncertain and the reality of "life can change in a day", numbers of last-minute bookings are on the rise. On-line travel agent, Site 59, reports that 20 per cent of site purchases are being made one day before departure, 55 per cent three days before departure and 80 per cent within seven days. If the tourism industry can find ways to capitalize on this new phenomenon it may be able to capture a growing niche market.

Another opportunity will lie with the on-line travel consumer. While on the whole travel numbers are down, on-line consumer surveys suggest that the on-line travel consumer is more apt to travel, even with today's traveling climate. According to a Travelocity.com poll on December holiday travel, those traveling to be with friends and family or take a vacation over Christmas was around the same as last year - 57 per cent compared with 58 per cent in 2000. 83 per cent said that their plans to travel have not changed as a result of recent events and 77 per cent of travelers said new airport security measures will not affect their likelihood to travel this holiday season. 72 per cent of respondents flew in 2001 compared with 65 per cent last year. Similarly, an Internet survey, conducted by Sabre Virtually There, stated 73 per cent of respondents plan to travel by air over the holiday period, while 84 per cent have decided to fly in the first quarter of 2002.

Year-End Review and Future Considerations

The last quarter of 2001 was a difficult one for the tourism industry. Not only has the economy been experiencing a downturn since the third quarter, airlines were also used as modes of destruction in the worst terrorist attacks in U.S. history. As a result, consumer and travel confidence has experienced all time lows.

What will happen in the first quarter of 2002 with no major scheduled holidays remains to be seen. Airlines will also have to take into consideration the huge losses they have incurred since September 11th and try and recoup some of that loss. Reductions in capacity (caused either by airline cuts or actual bankruptcies) and fare discounts in the most depressed travel markets may inflate costs of air travel in the coming months. Insurance hikes and more ticket surcharges needed to pay for the cost of increased security will further drive up the cost of air travel. In a weak economy, with an already skittish traveler, this does not create a formula for future success.

To justify increased security costs, governments will have to show the consumer that new measures are working with no major security lapses being reported.

While short-haul, domestic travel is still the best bet, the tourism industry will need to consider new ways to promote international travel and get the international traveler back in the skies. A new approach to business travel will also need to be considered to restore confidence in commercial flying.

The tourism industry as a whole will most certainly have to adapt to the new travel consumer and the increased demand for last minute, low-cost travel. Travel agents will have to continue to reinvent themselves and find ways to compete against the increased popularity and sophistication of on-line travel sites.

2002 may prove to be the biggest challenge yet for the tourism industry. A balance will need to be achieved between implementing cost-saving measures to survive and providing consumers with real service improvements. A move toward a "seamless" travel industry may be the best option for both travel suppliers and consumers in the new year.

One must keep in mind however that we are entering into an entirely new traveling era in 2002. While the tourism industry has traditionally bounced back from major environmental, political and economical crises, never before has there been a comparable event in the history of tourism. The new reality of global terrorism, with no country being immune to a terrorist attack, may result in travel habits showing sharp and unexpected shifts. In the short to medium-term, the tourism industry should be able to survive on domestic and short-haul travelers - which is good news for the creation and expansion of regional and low-cost carriers. Yet, in the long-term, the tourism industry will have to think of ways to woo back the international traveler in order to survive.